THE ABC PERSPECTIVE

Volume 18, No.4 **October 2007**

PRESENT PERSPECTIVES

Testing Our Mettle

If past history was all there was to the game,
the richest people would be librarians.

Warren Buffett

From many years of stock market research, analysis, and portfolio management, I acknowledge that the securities markets are in a constant state of flux. Fluctuating stock prices, I believe, are akin to a tug of war between the forces of optimism and pessimism. Yet, many market observers consider vacillating stock prices to represent extreme risk. I don't agree. I call it a mere difference of opinion between the buyer and the seller in setting the transaction price of a particular security. Each day is different from the next. Moreover, past history, as Warren Buffett implies, is by no means a recipe for future investment success.

In all candor, investment professionals are tested each day. Our investment commitment, due to the wide daily swings in the market, places us under intense scrutiny. For the portfolio manager there is no second guessing. Once a major decision is made to liquidate a holding or to purchase a new group of stocks, it is very difficult to reverse course. We must stick to our disciplines, as difficult as that may be. In effect, this is "testing our mettle" or putting our convictions to the test.

Strangely enough, no matter how financially astute or superb a portfolio manager's track record there are times when the market may be zigging while the manager may be zagging. As a result, a manager's relative performance to the benchmark may slip and he comes under criticism. This fact does not imply that the manager has suddenly become stupid. Rather, it often takes time to liquidate fully-valued holdings and to replace them with new, deeply-discounted securities. Furthermore, it may take time before these new selections gain traction to produce exemplary returns.

This restocking process can be frustrating to both the portfolio manager and his investors. Both are tested with regard to their patience and conviction. Nevertheless, we deeply believe that the potential rewards are well worth the wait. Recent past examples with regard to our ABC experiences include our earlier opportune purchases of Hudbay Minerals, Pacific Stratus Energy, Polaris Minerals, Seaspan Corporation, and Village Super Market. After a negative start, all of these holdings subsequently produced extraordinary returns for our ABC Funds.

Recently, we have added a number of new portfolio selections which we believe possess excellent long-term capital gains potential. Many are relatively unknown small/mid capitalization securities whose present relative obscurity masks their long-term fundamental appeal. They include: Fortress Paper Ltd., Western Goldfields Inc., Whitemud Resources, Babcock & Brown Air Limited, Phoenix Coal Corporation, and Orbus Pharma Inc.

In our opinion the "testing of one's mettle", as uncomfortable as it may be, represents both a positive change and a portfolio metamorphosis. In this regard, fresh undervalued selections are introduced to a securities portfolio to ultimately provide a new, exciting vitality and investment direction.

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ABC FUNDS

ECONOMIC PERSPECTIVES

Slowing Growth, Low Interest Rates and Future Inflation

With the flood of liquidity by the U.S. Federal Reserve, the European Central Bank and the Bank of Canada to counteract the subprime mortgage problems, Canadian asset-backed commercial paper impasse, U.S. housing slump, etc., we expect continued low interest rates and the potential for rising inflation. Although we do not foresee worldwide economic recession we expect U.S. economic growth to range between 1%-2% over the next 12 months.

The effective devaluation of the American dollar should boost U.S. economic activity as its manufacturing and exports become relatively undervalued versus Canadian and Eurodollar-priced goods and services. Overall, we believe that low interest rates, steady corporate profit growth, and a low U.S. dollar should provide a positive investment environment for North American equities over the next 12 months.

INVESTMENT PERSPECTIVES

Small Capitalization Equities: Undervalued

Due to the negative fallout of the U.S. housing slump, American subprime mortgage problem, Canadian asset-backed commercial paper impasse and world-wide credit concerns there is a noticeable shift toward investment liquidity and large capitalization equities. As fearful and risk-averse investors have rushed to the safety of treasury bills and blue chip common stocks, small capitalization equities have largely been shunned by investors. In effect, the relative valuation between small and large capitalization equities has widened considerably over the past several months. This circumstance is now providing interesting risk/reward opportunities for discerning investors.

Although we have been upgrading our portfolios by shifting new investments toward more liquid, dividend-paying common stocks, a number of significantly undervalued smaller capitalization equities are now appearing. While we intend to adhere to our portfolio upgrading policy, we will selectively add the occasional deeply-undervalued small capitalization stock to our portfolios.

PORTFOLIO PERSPECTIVES

Continuing to Upgrade Our Portfolios

While we have continued to upgrade our ABC portfolios by shifting our investments to relatively undervalued, more liquid, dividend-paying securities, we are starting to uncover a number of deeply-undervalued small capitalization stocks. Although we remain very selective, in a very volatile equity environment, we have added an assortment of new holdings such as Babcock & Brown Air Limited, Fortress Paper, Phoenix Coal Corp., Orbus Pharma Inc., Standard Life PLC and Western Goldfields. To cover our new purchases, we have liquidated Blue Note Mining, Pulse Data, Pacific Stratus, African Copper, Oceanfreight Inc. and Canam Group.

ABC FUNDS

ABC Funds Value Favourites

FORTRESS PAPER LIMITED

Fortress Paper (TSX: FTP) is an international producer of security papers and wallpaper base. The Company's Landqart Mill in Switzerland produces security papers, which includes paper currency, passports, visas, cheques, share certificates and lottery tickets. The Landqart Mill is one of only nine authorized suppliers of various denominations of the Euro currency. The Company's Dresden Mill in Germany produces primarily non-woven wallpaper base that is sold to Eastern Europe and the former Soviet Union. Although global demand for wallpaper is declining, these markets are still experiencing growth.

We believe that Fortress Paper is a net asset value story, where the replacement value of the two mills and the related equipment is well above the Company's current market capitalization. After poring through the IPO prospectus we discovered that the fire insurance value of the Landqart Mill was CHF (Swiss Francs) 66.5 million for the building and CHF 163 million for the inventory and equipment. At the current exchange rate this totals almost CAD $200 million. The Dresden Mill has total capacity of 36,000 tonnes and a 12,000 tonne machine costs approximately EUR 30 million. Therefore the total replacement value of three 12,000 tonne machines is EUR 90 million or CAD $125 million. Additionally, the Dresden complex includes land, a hydroelectric plant and a water treatment facility, which were appraised at CAD $50 to CAD $100 million combined.

Putting all of the pieces together, we believe that the Company's assets are worth between CAD $375 and CAD $425 million compared to the current market capitalization of only CAD $86 million. We are not suggesting that the stock should trade at replacement value, but we believe that a 75% discount to net asset value is excessive for assets that are both cash flow positive and profitable.

On August 14, Fortress released second quarter results that supported our net asset value analysis. Based on the number of shares outstanding post-IPO, Fortress earned $0.17 per basic share and $0.16 per fully diluted share in its first quarter as a public entity. Annualized and ignoring any additional sequential growth through the balance of the year, the stock is trading at approximately twelve times earnings. Looking at the Company's historic results, net income grew to $1.8 million in 2006 from $1.5 million in 2005. Based on a 20% growth rate, consistent with management's outlook, we believe that Fortress could trade at 20 times earnings. This implies a potential valuation range of $12.80 to $15.00 over the course of the next twelve to eighteen months.

KANSAS CITY LIFE INSURANCE COMPANY

Now in its 112th year, Kansas City Life Insurance Company (KCLI) has over $31 billion of policies in force and over 500,000 policyholders. Through its sales force of over 2,000 general agents, KCLI offers traditional, interest sensitive, and variable life and annuity insurance products in 48 states including the District of Columbia.

KCLI is essentially a family-run business that is managed with a long-term focus in mind. R. Philip Bixby, a fourth generation member of the founding family, is the Company's current Chairman and CEO. As a group, the Bixby family currently owns over 60% of KCLI's shares. Another 10% is held by other insiders and 6% is owned by the company's employees. This leaves just 24%, or roughly 2.5 million shares in the public float. Trading in the stock is therefore relatively thin and this has historically led to periods of share price volatility and undervaluation.

To ensure its longevity, KCLI maintains a strong capital position and employs a conservative investment philosophy. It carries more reserves (cash put aside to pay benefits) than is required and has just $14 million of debt. During the first quarter of the year, KCLI returned some of the excess liquidity to shareholders in the form of a $2 per share special dividend. This one time payment was in addition to the company's regular quarterly dividend of $0.27/share.

With a market value of just under $600 million, KCLI currently trades at a 16% discount to our adjusted book value calculation of around $699 million or $59 per share. As a measure of comparison, most public life insurers trade between 2 to 2 ½ times book value. On August 17th, KCLI announced a 17% increase in second quarter earnings. The Company benefited from higher annuity sales and a lower mortality rate. If these trends persist, we expect the market to eventually close the gap between KCLI's book value and its undervalued stock price.

On a final note, with its strong regional presence, experienced sales force and strong capital position, KCLI could make an attractive acquisition for a larger insurer. In addition, given the recent devaluation of the U.S. dollar, KCLI could be catching the attention of potential foreign suitors. We believe that in the event of a sale, KCLI would be worth significantly more than its current market value. Of course the final decision would rest with the Bixby's, who may prefer to maintain the status quo i.e. - keep it in the family. On the other hand, if a premium offer was put forward, the Bixby's might consider monetizing their shares and diversifying the family fortune.

ABC FUNDS

Announcing Updated ABC Funds Web Site Launch

ABC Funds is pleased to announce the launch of the updated ABC Funds (www.abcfunds.com) web site. Over the past several months we have been gathering client ideas and suggestions for the design of our revitalized web site. Our intent was to make our web site more visually appealing as well as more user-friendly. We also wanted to simplify navigation through our sites and place the most requested information at your fingertips. Visitors to our office will also notice where we got our inspiration for the new design.

We have an established goal of continuous improvement at ABC Funds and hope you like the changes that have been made. Over the next few months we will continue to add additional features, including a survey. We hope you will take the time to complete the questionnaire as it will enable us to better serve you. In addition, we are setting up an "Ask ABC" Q&A section where clients can submit questions that will be answered by members of the ABC staff.

Additionally, we intend to overhaul our Value Investigator web site (www.valueinvestigator.com) with the similar intent of improving its navigation and organization.

Please visit our site and take a tour. If you have any suggestions or comments about the new site please contact Ian D'Souza at (idsouza@abcfunds.com).

Ian D'Souza & Neal Gilmore

Administrative Updates – Lunch & Learn Seminars

As all of you are aware, we like to keep our clients fully informed about how our funds are doing and to allow all Clients and Prospects the opportunity to ask questions about our performance and goals. As a result, we would like to announce that, going forward, we are opening up all our monthly Lunch & Learn Seminars to both Clients and Prospects.

Due to limited space, all Lunch & Learn Seminars will be capped to the first 50 people who RSVP. In consequence, we request that all interested attendees RSVP early for the date you plan on attending. Our meetings take place at our office at 12 noon on the day specified. Please RSVP at least 24 to 48 hours in advance to 416-365-9696 or by email to rsvp@abcfunds.com.

Remember, seating is limited, so RSVP early!

Lunch & Learn Seminar Schedule (Q4 2007)
October 19, 2007
November 16, 2007
December 7, 2007

Gabriel Rulli & Neal Gilmore

The present markets are very frustrating, particularly to deep value investors focusing on undervalued small and mid-capitalization equity securities. This commentary, written over seven years ago, puts the present sense of investment frustration in perspective.

The following is an excerpt from the July 2000 ABC Perspective

Frustration

"I always know we are close to a rally
when I start to question my own work."
- Elaine Garzarelli

I recently went to an investment analysts lunch and I bumped into one of my competitor-chums. Bob, like myself, is a "deep value investor" who hunts for grossly under-priced value stocks. "How are you doing?" I asked. Bob nodded and then looked me straight in the eye and shot back, "How's business?" I thought for a few seconds and replied, "Challenging, very challenging."

I explained that while our ABC team often came across cheap undervalued stocks, the market seemed to be fixated on momentum and growth plays with astronomical price to earning ratios, little cash flow and big premiums to book value. "It seems to me," I continued, "that the expensive stocks get more expensive and the cheapies become cheaper."

I guess my extreme candour must have hit a chord with Bob. You see, right after my comments Bob loosened up like a pried-open clam. "I have had a terribly frustrating time," Bob admitted, "…and it's starting to get to me. I find a cheap value stock, do considerable research and after I buy it, it either languishes or declines in price. Then I glance over at Nortel, comprising 30% of the TSE 300 Index, trading at 75 to 100 times price to earnings and ten times book value and it takes off in price at the mere sniff of a rumoured new sales contract. If it wasn't for Nortel and a handful of TSE-listed high tech stocks, the TSE performance benchmark would be considerably different and easier to beat," Bob lamented. "Overall," Bob finally admitted, "this has been the toughest time in my 25 years in the business. I am starting to doubt if I know anything and whether it is even worth my while to do serious analysis." Bob then shook my hand and bolted off to another meeting.

I was stunned. I stood there for several minutes trying to figure the weight of Bob's comments. I had immense respect for Bob as an analyst and portfolio manager. He was a very bright, tough and judicious stock picker. How could this market have gotten to him? Later that afternoon as I rode the subway home I thought deeply about Bob's words. The present stock market environment is very, very frustrating to all investors. This period of frustration has persisted for an inordinate length of time and it is now starting to enervate people. It is testing everyone's patience and conviction….It has been a very difficult investment period worldwide. Some well-known investors have lost huge sums and have either closed their shop (Julian Robertson) or substantially scaled back their operations (George Soros). But the fact is that the past 12 to 18 months have seen tremendous changes in the investment industry. The end result has been incredible stress and frustration on many investors, analysts and portfolio managers.

I was really intrigued with a June 27 Financial Post article of a Bloomberg newswire release:

> "The big change in the markets…is that they've gone haywire; rational valuations have long since been abandoned in a bubble of new economy flimflam. In an irrational world, rational people can't be expected to operate anymore."

This is a very interesting commentary on a most perplexing financial environment. In my opinion there is no doubt that the securities markets have indeed gone haywire with irrational valuations, IPOs, herd mentality investments, hope-springs-eternal valuations and disjointed index benchmarks. I do believe however, that the rational investor, while temporarily out of synch with this topsy-turvey market, will come out ahead in the end. True, savvy investors like Bob are befuddled and frustrated by the current extreme market volatility and craziness. But I feel the present situation is temporary. I profoundly believe that the basic fundamental analysis of financial and accounting ratios, and serious investigative research are still key to successful investing. The important thing is not to let the present frustration force us to question our work, become impatient or lead to investment inertia.

Irwin A. Michael, CFA

ABC FUNDS

ABC Fully-Managed Fund (ABC FMF)

September 30, 2007

NAVPS	**$ 9.6122**
C.G. Dist.	**$ 0.000000**
Inc. Dist.	**$ 0.048988**

Objective

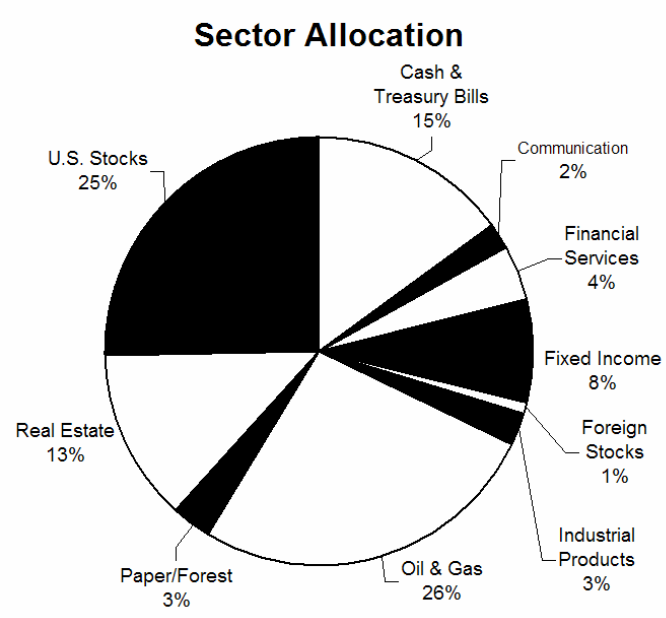
ABC Fully-Managed Fund is a diversified Canadian balanced fund. While our long-term asset mix target is 50% fixed income and 50% Canadian equities, in practice, our portfolio mix of stocks versus bonds is quite flexible to take advantage of periodic investment opportunities.

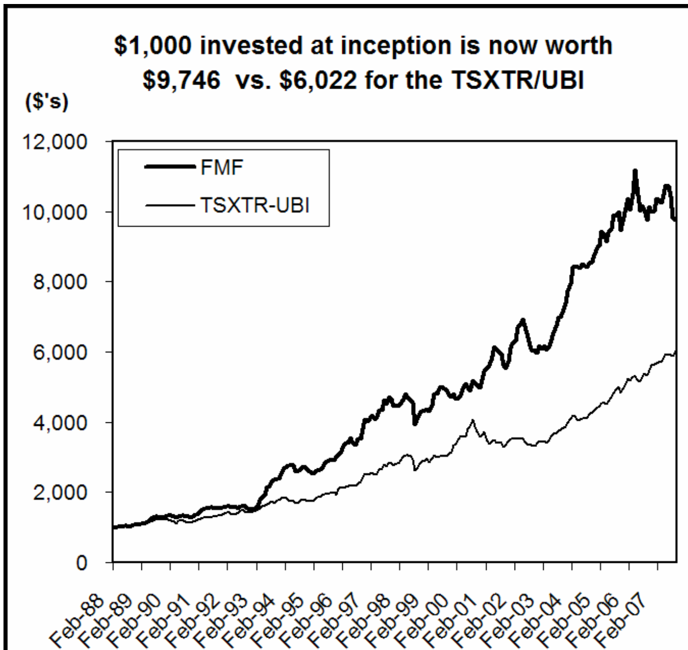
Performance of the Fund vs. the Benchmark

Annualized Compounded Rates of Return			Annual Returns		
	ABC FMF (%)	TSXTR/UBI (%) **		ABC FMF (%)	TSXTR/UBI (%)**
1 Month	***-0.64***	2.29	1989	***23.68***	17.20
Q3 2007	***-9.07***	1.87	1990	***2.17***	-4.32
YTD	***-2.84***	6.63	1991	***14.69***	17.35
1 Year	***-0.01***	12.90	1992	***-1.48***	4.75
2 Year	***-1.21***	9.78	1993	***64.35***	24.36
3 Year	***4.53***	12.68	1994	***2.82***	-2.64
5 Year	***10.09***	12.64	1995	***17.25***	17.97
10 Year	***7.50***	7.75	1996	***31.99***	19.5
15 Year	***12.83***	10.02	1997	***10.56***	12.22
Since Inception*	***12.33***	9.60	1998	***-2.02***	3.84
			1999	***10.37***	14.29
			2000	***8.31***	8.71
			2001	***17.62***	-2.96
			2002	***0.77***	-1.47
			2003	***25.52***	15.27
			2004	***15.89***	10.42
			2005	***12.47***	15.25
			2006	***-0.64***	11.00

***Inception date for the Fund was February 22nd, 1988**

**Benchmark consists of 50% of the S&P/TSX Composite Total Return Index and 50% of the PC-Bond Universe Bond Index (UBI)





ABC FUNDS

ABC Fully-Managed Fund, Statement of Investment Portfolio

September 30th, 2007

all dollar amounts in thousands (cdn$)

No. Of Shares	Description	Total Cost ($)	Market Value ($)
CASH -- 15.04%			
5,650,990	C$ Cash	5,651	5,651
34,893	U$ Cash	12	35
105,237	RT CAP Cash In Action Fund	10,524	10,524
61,186	RT CAP Cash In Action Fund US $	-	6,080
	TOTAL CASH	**16,187**	**22,289**
FIXED INCOME -- 7.81%			
3,000,000	Blue Note Mining Inc., 11%, 03/31/2012	3,000	3,000
4,000,000	Frontera Copper, 10%, 06/15/2010	3,324	4,066
2,500,000	Magellan Aero., conv. 8.5%, 01/31/2008	2,478	2,455
2,000,000	Nova Chemical ., 7.85%, 08/30/2010	1,984	2,062
	TOTAL	**10,786**	**11,583**
COMMON STOCKS -- 77.15%			
FINANCIAL SERVICES -- 4.08%			
9,483	E-L Financial Corp.	2,514	6,050
	TOTAL	**2,514**	**6,050**
REAL ESTATE -- 13.11%			
2,000,000	Huntingdon Real Estate Inv. Trust	5,230	4,440
750,000	Lanesborough Real Estate Inv. Trust	4,568	4,388
850,000	Lakeview Hotel Real Estate Inv. Trust	3,400	3,256
175,000	Morguard Corp. , common shares	3,595	7,350
	TOTAL	**16,792**	**19,433**
INDUSTRIAL PRODUCTS -- 2.44%			
750,000	Terravest Income Fund, units	5,894	2,955
48,200	Wescast Industries Inc., "A"	1,762	660
	TOTAL	**7,656**	**3,615**
COMMUNICATION -- 1.94%			
400,000	CanWest Global Communications	4,120	2,880
	TOTAL	**4,120**	**2,880**

exchange rate used is 0.9937

No. Of Shares	Description	Total Cost ($)	Market Value ($)
PAPER/FOREST PRODUCTS -- 2.97%			
550,000	Norbord Inc.	4,893	4,400
	TOTAL	**4,893**	**4,400**
OIL & GAS -- 26.35%			
350,000	Avenir Diversified Income Trust	2,126	2,783
232,470	Daylight Energy Trust, units	3,869	1,813
3,500,000	Endev Energy Inc.	4,880	2,975
500,000	Essential Energy Services Trust Units	3,900	2,625
1,200,000	Grey Wolf Exploration	3,351	3,264
300,000	Nexen Inc.	2,381	9,117
1,000,000	Pearl Exploration & Prod. , common	4,500	3,940
750,000	Saxon Energy Services Inc, common	3,675	3,750
450,000	Talisman Energy Inc.	2,691	8,789
	TOTAL	**31,374**	**39,055**
U.S. STOCKS -- 25.38%			
30,000	Amer. National Ins. Co.	3,244	3,922
150,000	Babcock & Brown AirLimited ADS shrs.	3,450	3,398
150,000	Bassett Furniture Industries Inc.	3,390	1,547
200,000	Covenant Transport Inc.	3,094	1,341
250,000	Flagstar Bancorp Inc., common	3,477	2,417
65,000	General Motors Corp.	3,702	2,370
75,000	Kansas City Life Insurance Co., common	4,439	3,285
200,000	Phoenix Companies Inc.	3,583	2,804
75,000	Pioneer Natural Resources Co.	3,454	3,352
175,000	Presidential Life Corp.	4,416	2,949
200,000	Seaspan Corp., common	5,050	6,539
150,000	Superior Industries Intl.	3,760	3,233
208,010	W Holding Inc., common	4,128	463
	TOTAL	**49,185**	**37,622**
FOREIGN STOCKS -- 0.88%			
223,594	Standard Life PLC, common	1,275	1,307
	TOTAL	**1,275**	**1,307**
TOTAL COMMON STOCK		**117,809**	**114,363**
TOTAL PORTFOLIO		**144,782**	**148,236**

ANY RATES OF RETURN PRINTED IN THIS PUBLICATION ARE FOR HISTORICAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS FUTURE PERFORMANCE.

ABC FUNDS

ABC Fundamental-Value Fund (ABC FVF)

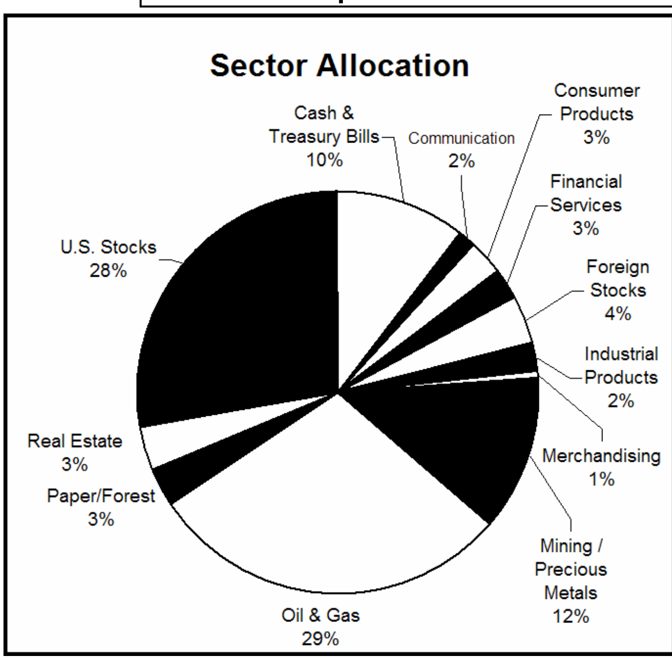
NAVPS	$21.5766
C.G. Dist.	$ 0.000000
Inc. Dist.	$ 0.000000

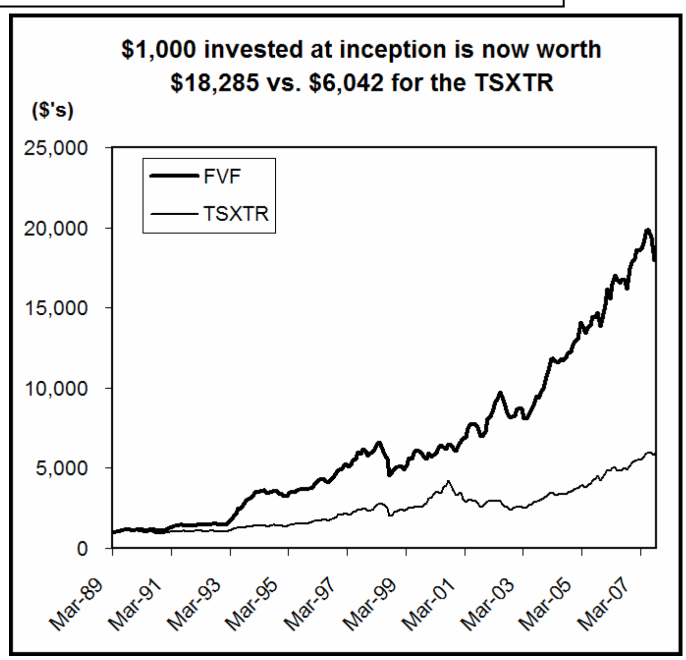
September 30, 2007

ABC Fundamental-Value Fund seeks out fundamentally undervalued Canadian equities. Our extensive "value research" style attempts to ferret out overlooked and out of favour Canadian equities. With these discerning selections we cobble a diversified portfolio of small, medium and large capitalization Canadian value stocks. When fully invested and having discovered new, fundamentally attractive securities, our sell discipline forces us to cull our portfolios to liquidate the most expensive holdings.

Performance of the Fund vs. the Benchmark

Annualized Compounded Rates of Return			Annual Returns		
	ABC FVF (%)	TSXTR (%)**		ABC FVF (%)	TSXTR (%)**
1 Month	***1.73***	3.46	1990	***-1.98***	-14.80
Q3 2007	***-8.02***	1.99	1991	***22.92***	12.02
YTD	***1.13***	11.22	1992	***4.26***	-1.43
1 Year	***13.09***	22.81	1993	***121.75***	32.80
2 Year	***11.57***	15.82	1994	***3.03***	-0.63
3 Year	***14.46***	20.16	1995	***11.08***	14.83
5 Year	***17.51***	20.35	1996	***31.75***	28.35
10 Year	***11.43***	9.11	1997	***20.35***	14.98
15 Year	***18.09***	12.35	1998	***-13.81***	-1.58
Since Inception*	***17.01***	10.18	1999	***16.25***	31.71
			2000	***7.51***	7.41
			2001	***26.06***	-12.57
			2002	***7.62***	-12.44
			2003	***23.55***	26.72
			2004	***21.42***	14.48
***Inception date for the Fund was March 20, 1989**			2005	***16.62***	24.13
****S&P/TSX Composite Total Return Index**			2006	***19.13***	17.26





ABC FUNDS

ABC Fundamental-Value Fund, Statement of Investment Portfolio

September 30th, 2007

all dollar amounts in thousands (cdn$)

No. Of Shares	Description	Total Cost ($)	Market Value ($)
CASH -- 10.50%			
0	C$ Cash	-	-
183,077	U$ Cash	182	182
948,038	RT CAP Cash In Action Fund	94,804	94,804
17	RT CAP U$ Cash Mgmt Fund	2	2
	TOTAL CASH	**94,987**	**94,987**
COMMON STOCKS -- 89.50%			
REAL ESTATE -- 3.51%			
2,950,000	Huntingdon Real Estate Inv. Trust	7,858	6,549
600,000	Morguard Corp., common	12,351	25,200
	TOTAL	**20,208**	**31,749**
INDUSTRIAL PRODUCTS -- 2.25%			
480,400	Canam Manac Group Inc.	2,903	6,678
3,995,000	Magellan Aerospace Corp.	11,915	9,548
300,000	Wescast Industries Inc., A	10,808	4,110
	TOTAL	**25,626**	**20,336**
FINANCIAL SERVICES -- 2.51%			
35,550	E-L Financial Corp.	9,591	22,681
	TOTAL	**9,591**	**22,681**
OIL & GAS -- 29.20%			
775,000	Addax Petroleum Corp.	20,385	30,403
3,000,000	Anderson Energy Ltd., common	19,268	11,220
1,750,000	Avenir Diversified Income Trust	11,855	13,913
2,500,000	Bow Valley Energy	3,725	14,650
451,589	Daylight Energy Trust Units	7,384	3,522
318,100	Ember Resources	782	519
1,750,000	Essential Energy Services Trust	14,452	9,188
4,750,000	Gentry Resources Ltd., common	18,703	12,562
5,250,000	Geocan Energy Inc.	9,713	3,465
2,929,200	Ithaca Energy Inc.	6,940	10,116
4,500,000	Midnight Oil Exploration	16,398	6,570
1,000,000	Nexen Inc.	8,028	30,390
3,280,000	Pearl Exploration	15,835	12,923
1,000,000	Precision Drilling Trust units	27,211	19,070
4,500,000	Saxon Energy Services Inc.	17,317	22,500
22,500,000	Stratic Energy Corp.	27,989	20,475
1,350,000	Talisman Energy	8,136	26,636
4,500,000	West Energy	23,575	16,065
	TOTAL	**257,694**	**264,186**
MERCHANDISING -- 0.50%			
500,000	Danier Leather Inc.	5,018	4,548
	TOTAL	**5,018**	**4,548**

exchange rate used is 0.9937

No. Of Shares	Description	Total Cost ($)	Market Value ($)
COMMUNICATION -- 1.59%			
2,000,000	CanWest Global Communicatio	21,061	14,400
	TOTAL	**21,061**	**14,400**
MINING/PRECIOUS METALS -- 12.47%			
1,250,000	Hudbay Minerals Inc.	3,463	32,188
9,630,100	Ivernia Inc.	15,202	13,193
2,000,000	Polaris Minerals Corp.	9,600	28,000
1,925,000	Richmont Mines	9,433	5,448
6,250,000	Western Goldfield Inc.,common	13,668	21,375
1,200,000	Whitemud Resources	9,608	12,600
	TOTAL	**60,975**	**112,803**
PAPER & FOREST PRODUCTS -- 3.09%			
3,500,000	Norbord Inc.	31,432	28,000
	TOTAL	**31,432**	**28,000**
CONSUMER PRODUCTS -- 2.61%			
1,095,000	Andrew Peller Ltd., common	4,497	11,300
400,000	Arbor Memorial Services "B"	5,339	12,350
	TOTAL	**9,836**	**23,650**
U.S. STOCKS -- 27.80%			
125,000	Amer. Nat. Ins. Co.	14,057	16,340
925,000	Babcock & Brown Air Ltd. ADS	21,296	20,957
250,000	Blackstone Group	5,850	6,230
1,470,111	Flagstar Bancorp Inc., common	20,113	14,214
250,000	General Motors Corp.	14,238	9,117
800,000	Jo-Ann Stores Inc.	15,412	16,774
385,000	Kansas City Life Insurance Co.	21,852	16,864
2,000,000	Meridian Resources Corp.	7,438	4,929
750,000	Pioneer Natural Resources Co.	34,379	33,522
900,000	Presidential Life Corp.	21,231	15,168
1,000,000	Seaspan Corporation	25,212	32,693
750,000	Superior Industries International	17,700	16,165
1,000,000	The Phoenix Companies	17,648	14,021
1,250,000	Unum Provident Corp., common	25,148	30,395
1,852,784	W Holding Company Inc.	10,100	4,124
	TOTAL	**271,672**	**251,513**
FOREIGN STOCKS -- 3.97%			
4,500,000	McGuigan Simeon Wines Ltd.	8,942	6,688
5,000,000	Standard Life PLC, common	28,582	29,234
	TOTAL	**37,525**	**35,921**
TOTAL COMMON STOCK		**750,639**	**809,787**
TOTAL PORTFOLIO		**845,627**	**904,775**

ANY RATES OF RETURN PRINTED IN THIS PUBLICATION ARE FOR HISTORICAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS FUTURE PERFORMANCE.

ABC FUNDS

ABC American-Value Fund (ABC AVF)

NAVPS	$ 6.7690
C.G. Dist.	$ 0.000000
Inc. Dist.	$ 0.000000

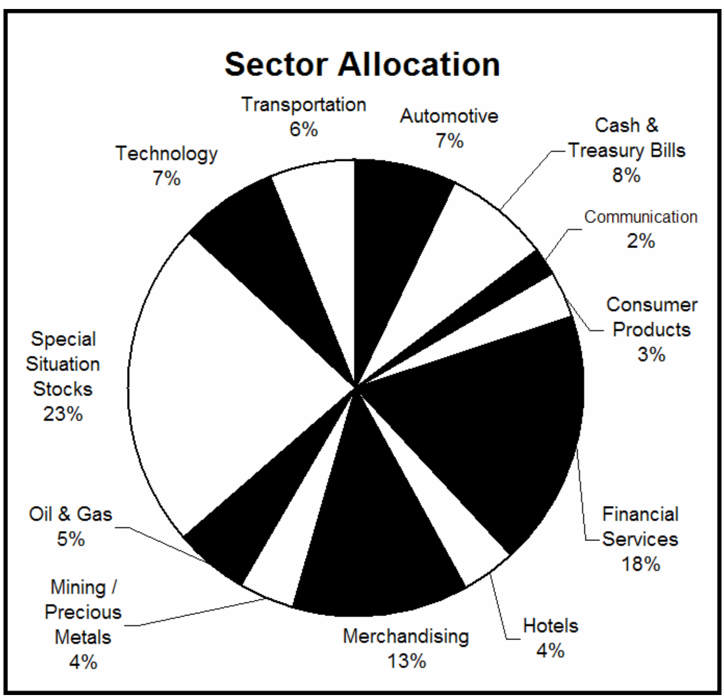
September 30, 2007

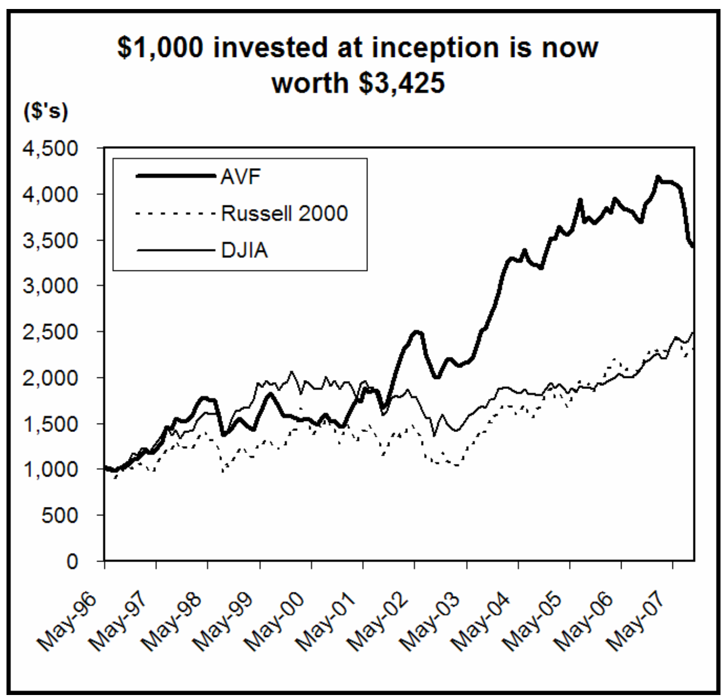
Objective

ABC American-Value Fund searches out fundamentally undervalued American, special situation and foreign U.S. stock exchange-listed common shares. While using the same investment techniques as our two Canadian ABC Funds, the American market due to its sheer size provides us with extensive value opportunities.

Performance of the Fund vs. U.S. Benchmarks

Annualized Compounded Rates of Return				Annual Returns			
	ABC AVF (%)	Russell 2000 (%)	Dow Jones Industrials (%)		ABC AVF (%)	Russell 2000 (%)	Dow Jones Industrials (%)
1 Month	***-2.35***	1.59	4.03	1997	***38.76***	20.52	22.64
Q3 2007	***-15.82***	-3.39	3.63	1998	***0.75***	-3.45	16.10
YTD	***-14.70***	2.26	11.49	1999	***1.47***	19.62	25.22
1 Year	***-7.08***	11.01	18.98	2000	***-6.66***	-4.20	-6.18
2 Year	***-4.38***	9.82	14.66	2001	***39.52***	1.03	-7.10
3 Year	***2.09***	12.02	11.29	2002	***6.91***	-21.58	-16.76
5 Year	***11.31***	17.33	12.85	2003	***32.74***	45.37	25.32
10 Year	***8.25***	5.90	5.75	2004	***20.85***	17.00	3.15
Since Inception*	***11.48***	7.62	8.34	2005	***7.16***	3.32	-0.61
***Inception date for the Fund was May 2, 1996**				2006	***6.65***	17.00	16.29





ABC FUNDS

ABC American-Value Fund, Statement of Investment Portfolio

September 30th, 2007

all dollar amounts in thousands (cdn$)

exchange rate used is 0.9937

No. Of Shares	Description	Total Cost ($)	Market Value ($)
CASH -- 7.71%			
1,283,965	Cash	1,284	1,284
18	RT CAP Cash In Action Fund	2	2
1,794,021	US$ Cash	1,783	1,783
44,237	RT CAP US$ Cash Fund	4,396	4,396
	TOTAL CASH	**7,464**	**7,464**
COMMON STOCKS -- 92.29%			
FINANCIAL SERVICES -- 18.17%			
20,000	Amer. Natl. Ins. Co.	2,191	2,614
62,500	Kansas City Life Insurance Co.	3,577	2,738
250,000	National Atlantic Holdings Corp.	3,265	2,305
175,000	Phoenix Companies Inc.	3,070	2,454
325,000	PMA Capital Corp.	3,474	3,068
175,000	Presidential Life	3,730	2,949
650,000	W Holding Co. Inc.	3,607	1,447
	TOTAL	**22,914**	**17,575**
CONSUMER PRODUCTS -- 3.24%			
225,000	Flexsteel Industries , common	3,842	3,130
	TOTAL	**3,842**	**3,130**
OIL & GAS -- 5.38%			
750,000	Meridian Resources Corp.	3,416	1,848
75,000	Pioneer Natural Resources	3,441	3,352
	TOTAL	**6,857**	**5,201**
AUTOMOTIVE -- 7.10%			
300,000	Coachmen Industries Inc.,	3,644	1,997
45,000	General Motors Corp., common	2,563	1,641
150,000	Superior Industries Intl.	3,787	3,233
	TOTAL	**9,994**	**6,871**
COMMUNICATION -- 1.89%			
700,000	Regent Communications Inc.	3,277	1,829
	TOTAL	**3,277**	**1,829**

No. Of Shares	Description	Total Cost ($)	Market Value ($)
MERCHANDISING -- 12.61%			
100,000	Bassett Furniture Industries Inc.	2,469	1,031
263,000	Buca Inc.	2,216	489
325,000	Cost Plus Inc., common	3,307	1,298
200,000	John B. Sanfilippo & Sons	3,203	1,624
150,000	Tandy Brands Accessories Inc.	2,669	1,556
120,000	Village Super Markets Inc.	2,422	6,201
	TOTAL	**16,285**	**12,199**
TRANSPORTATION -- 6.18%			
125,000	Babcock & Brown Air Ltd.ADS	2,875	2,832
200,000	Covenant Transport Inc.	3,422	1,341
87,708	Int'l Shipholding Corp., common	1,358	1,810
	TOTAL	**7,655**	**5,984**
TECHNOLOGY -- 6.76%			
300,000	Keynote Systems Inc., common	3,747	4,093
238,407	Startek Inc.	2,822	2,445
	TOTAL	**6,569**	**6,538**
HOTELS -- 3.81%			
300,000	Great Wolf Resorts Inc.	3,545	3,685
	TOTAL	**3,545**	**3,685**
MINING/PRECIOUS METALS -- 3.74%			
2,910,000	Phoenix Coal Corp., conv deb	3,638	3,615
	TOTAL	**3,638**	**3,615**
SPECIAL SITUATION STOCKS -- 23.42%			
450,000	Accrete Energy Inc.,common	3,072	2,025
950,000	Grey Wolf Exploration	2,658	2,584
100,000	Morguard Corp., common	2,074	4,200
450,000	Norbord Inc.	3,949	3,600
750,000	Pearl Exploration	3,371	2,955
550,000	Terravest Income Fund, units	3,775	2,167
1,500,000	Western Goldfields Inc., commo	3,204	5,130
	TOTAL	**22,102**	**22,661**
TOTAL COMMON STOCK		**106,678**	**89,288**
TOTAL PORTFOLIO		**114,143**	**96,752**

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ABC FUNDS

ABC North American Deep-Value Fund
(ABC NADVF)

NAVPS	$10.3988
C.G. Dist.	$ 0.000000
Inc. Dist.	$ 0.000000

September 30, 2007

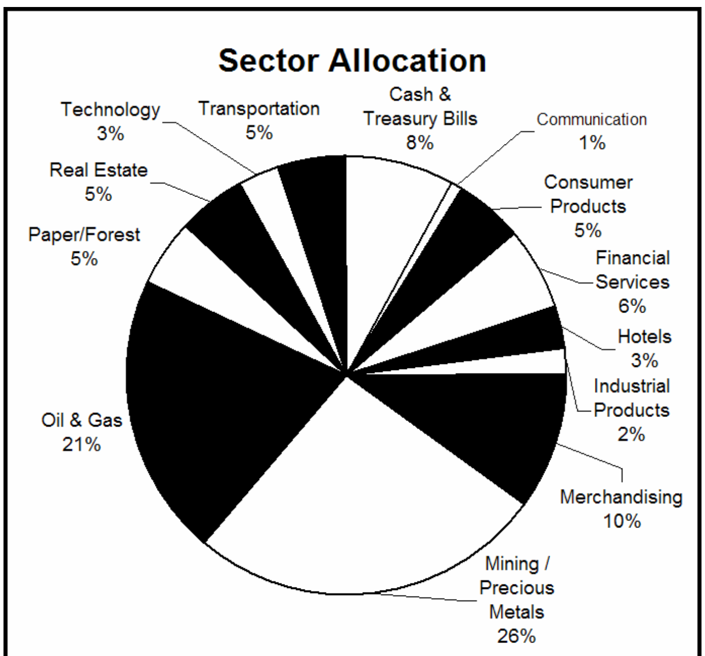
Objective

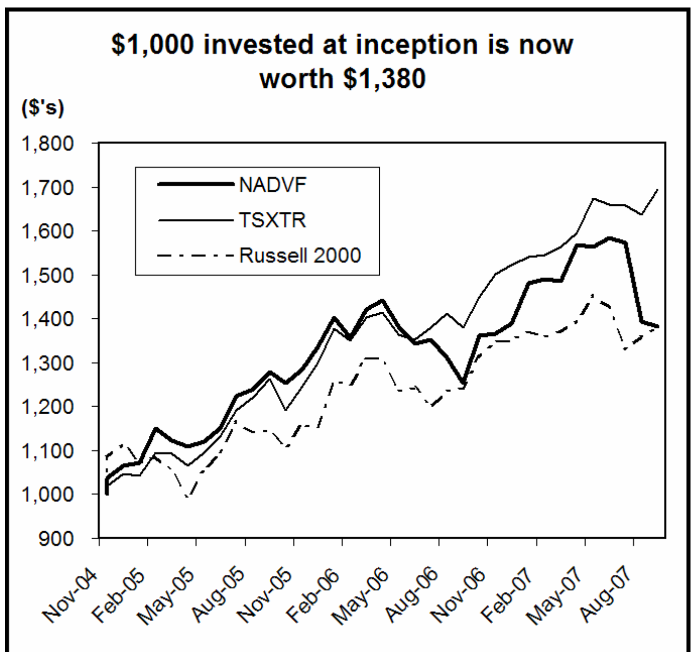
ABC North American Deep-Value Fund searches out fundamentally undervalued Canadian and American stock exchange-listed common shares. This closed-end fund has maximum flexibility to invest in a diversified mix of deep value securities. There is, however, a particular emphasis on micro-caps. The country and asset mix, as well as currency exposure, can vary and has no set limits. The portfolio, ordinarily, will have a mix of 40 to 50 holdings. This fund closed to new money on November 1, 2005.

Performance of the Fund vs. U.S. and Canadian Benchmarks

Annualized Compounded Rates of Return					Annual Returns				
	ABC NADVF (%)	Russell 2000 (%)	Dow Jones Industrials (%)	TSXTR** (%)		ABC NADVF (%)	Russell 2000 (%)	Dow Jones Industrials (%)	TSXTR** (%)
1 Month	***-0.94***	1.59	4.03	3.46	2005	***25.49***	3.32	-0.61	24.13
Q3 2007	***-12.78***	-3.39	3.63	1.99	2006	***3.92***	17.00	16.29	17.26
YTD	***-0.56***	2.26	11.49	11.22					
1 Year	***10.12***	11.01	18.98	22.81					
2 Year	***3.96***	9.82	14.66	15.82					
Since Inception*	***12.07***	11.67	11.84	19.80					

***Inception date for the Fund was November 1, 2004**
****S&P/TSX Composite Total Return Index**





ABC FUNDS

ABC North American Deep-Value Fund, Statement of Investment Portfolio
September 30th, 2007

all dollar amounts in thousands (cdn$) — *exchange rate used is 0.9937000*

No. Of Shares	Description	Total Cost ($)	Market Value ($)
CASH -- 8.34%			
890,192	Cash	890	890
24,515	RT CAP Cash In Action Fund	2,452	2,452
939,000	Cash - US $	933	933
90,181	RT CAP US$ Cash Fund	8,961	8,961
	TOTAL CASH	**13,236**	**13,236**
COMMON STOCKS -- 91.66%			
CANADIAN STOCKS -- 55.10%			
OIL & GAS / ENERGY -- 19.57%			
650,000	Accrete Energy Inc., common	5,119	2,925
550,000	Anderson Energy Ltd., common	4,155	2,057
1,896,000	Buffalo Oil & Resources	3,987	2,351
3,675,000	Endev Energy Inc.	5,021	3,124
850,000	Grey Wolf Exploration	2,378	2,312
1,000,000	Pearl Exploration & Prod.	4,500	3,940
1,450,000	Rockyview Energy Inc.	6,279	3,306
1,000,000	Saxon Energy Services , com.	4,900	5,000
350,000	Universal Energy	4,380	6,048
	TOTAL	**40,719**	**31,063**
PAPER & FOREST PRODUCTS -- 5.32%			
567,500	Fortress Paper Ltd., common	4,529	4,438
500,000	Norbord Inc.	4,390	4,000
	TOTAL	**8,919**	**8,438**
MINING/PRECIOUS METALS -- 17.15%			
1,390,200	Amerigo Resources Ltd.	3,143	3,573
1,687,500	Avnel Gold Mining Ltd. units	1,594	970
2,000,000	Constellation Copper Corp.	3,052	1,300
5,000,000	Goldhawk Resources Inc. units	1,704	2,500
925,000	Polaris Minerals	4,440	12,950
1,500,000	Scorpio Mining Corp.	1,725	2,250
350,000	Whitemud Resources	2,800	3,675
	TOTAL	**18,457**	**27,218**
INDUSTRIAL PRODUCTS -- 1.80%			
725,000	Terravest Income Fund, units	5,098	2,857
	TOTAL	**5,098**	**2,857**
CONSUMER PRODUCTS -- 1.56%			
1,275,000	Jig-A-Loo World	1,148	1,148
3,025,000	Orbus Pharma Inc.	1,510	1,240
1,500,000	Orbus Pharma Inc., warrants	0	83
	TOTAL	**2,657**	**2,470**
REAL ESTATE -- 5.10%			
1,750,000	Huntingdon Real Estate Trust	4,576	3,885
925,000	Lakeview Hotel Real Est.Trust	3,737	3,543
582,850	Northampton Group	633	664
	TOTAL	**8,946**	**8,092**
FINANCIAL SERVICES -- 1.17%			
1,750,000	GC Global Capital	1,898	1,838
655,000	GC Global Capital , warrants	0	13
	TOTAL	**1,898**	**1,851**

No. Of Shares	Description	Total Cost ($)	Market Value ($)
U.S. STOCKS -- 43.63%			
MINERALS / PRECIOUS METALS -- 9.38%			
2,500,000	Phoenix Coal Corp. conv pref.	3,288	3,105
12,012,500	U.S. Silver Corporation units	3,741	11,772
	TOTAL	**7,028**	**14,878**
HOTELS -- 2.71%			
350,000	Great Wolf Resorts Inc.	4,137	4,299
	TOTAL	**4,137**	**4,299**
OIL & GAS -- 1.16%			
750,000	Meridian Resource Corp.	3,382	1,848
	TOTAL	**3,382**	**1,848**
MERCHANDISING -- 9.92%			
200,000	Bassett Furniture Industries Inc.	4,426	2,063
400,000	Cost Plus Inc., common	4,075	1,598
125,000	Frisch Restaurants Inc.	3,510	3,596
325,000	J. Alexander's Corp., common	3,040	4,234
195,000	John B. Sanfilippo & Sons	3,123	1,583
120,000	S&K Famous Brands	2,383	1,365
125,000	Tandy Brands Accessories Inc.	2,218	1,297
	TOTAL	**22,775**	**15,736**
CONSUMER PRODUCTS -- 3.58%			
300,000	Chromcraft Revington Inc.	4,032	1,404
325,000	Coachmen Industries Inc.	4,170	2,164
315,000	Cobra Electronics Corp.	3,006	2,108
	TOTAL	**11,208**	**5,676**
TRANSPORTATION -- 4.72%			
150,000	Babcock & Brown Air Ltd., ADS	3,450	3,398
125,000	Seaspan Corporation common	3,190	4,087
	TOTAL	**6,640**	**7,485**
FINANCIAL SERVICES -- 4.63%			
124,900	Flagstar Bancorp Inc.	1,737	1,208
300,000	National Atlantic Holdings Corp.	3,447	2,766
200,000	Presidential Life Corp.	4,882	3,371
	TOTAL	**10,066**	**7,345**
TECHNOLOGY -- 2.79%			
325,000	Keynote Systems Inc., common	3,915	4,434
	TOTAL	**3,915**	**4,434**
COMMUNICATIONS -- 1.11%			
675,000	Regent Communications Inc.	2,901	1,764
	TOTAL	**2,901**	**1,764**
TOTAL COMMON STOCK		**158,746**	**145,453**
TOTAL PORTFOLIO		**171,982**	**158,689**

ABC FUNDS

ABC Dirt-Cheap Stock Fund **(ABC DCSF)**

NAVPS	**$12.0218**
C.G. Dist.	**$ 0.000000**
Inc. Dist.	**$ 0.000000**

September 30, 2007

Objective

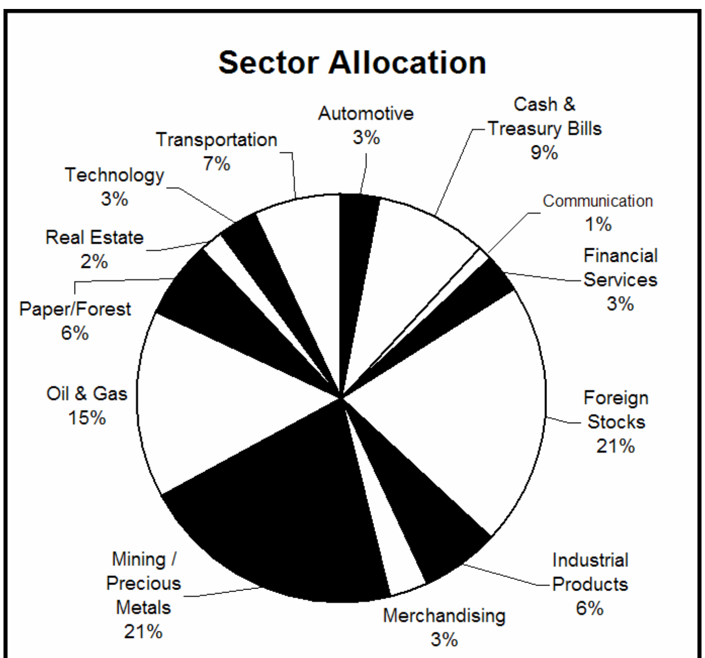
ABC Dirt-Cheap Stock Fund is a "go-anywhere in the world" equity fund with unlimited investment flexibility. This deep-value fund has no company-size investment restrictions, and, as a result, can opportunistically purchase overlooked, undervalued and less liquid micro-capitalization stocks. We expect this fund to have a mix of 40-60 holdings comprised of Canadian, U.S. as well as Far East, Australian and European equities. The fund closed to new money on September 1, 2006.

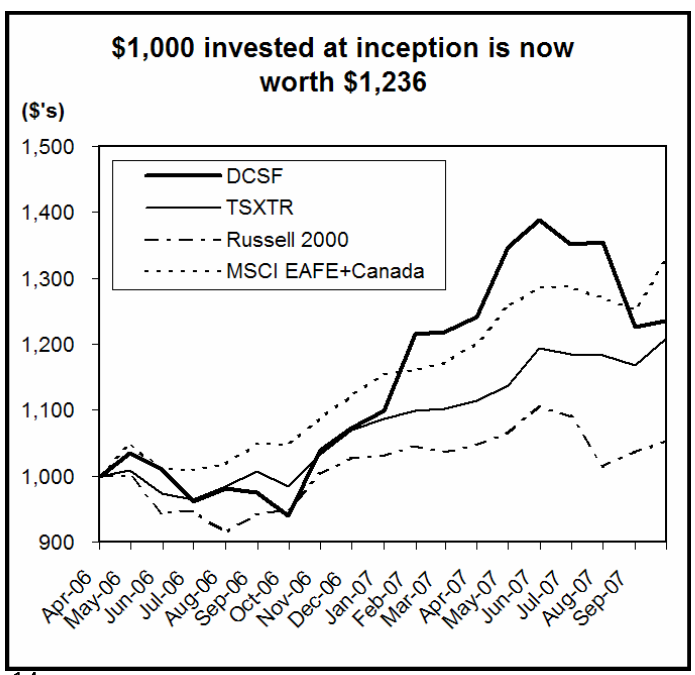
Performance of the Fund vs. U.S. and Canadian Benchmarks

Rates of Return

	ABC DCSF (%)	Russell 2000 (%)	TSXTR** (%)	MSCI EAFE*** (%)
1 Month	***0.77***	1.59	3.46	5.70
Q3 2007	***-8.59***	-3.39	1.99	2.77
6 Month	***-0.48***	0.59	8.40	10.21
YTD	***12.45***	2.26	11.22	14.72
1 Year	***31.53***	11.01	22.81	26.38
Since Inception*	***16.11***	3.48	13.41	20.55

***Inception date for the Fund was April 1, 2006**
****S&P/TSX Composite Total Return**
*****MSCI EAFE + Canada US$**





ABC FUNDS

ABC Dirt-Cheap Stock Fund, Statement of Investment Portfolio

September 30, 2007

all dollar amounts in thousands (cdn$) *exchange rate used is 0.9937000*

No. Of Shares	Description	Total Cost ($)	Market Value ($)
CASH -- 9.45%			
11,623,321	Cash	11,623	11,623
94,908	Cash - SGD $	64	64
50,715	Cash - AUD $	45	45
550,124	Cash - AUD $	70	70
648,860	Cash - US $	645	645
0	RT CAP US$ Cash Fund	-	-
	TOTAL CASH	**12,447**	**12,447**
COMMON STOCKS -- 90.55%			
CANADIAN STOCKS -- 38.69%			
OIL & GAS / ENERGY -- 13.15%			
500,000	Accrete Energy Inc., common	3,815	2,250
500,000	Anderson Energy Ltd., common	3,317	1,870
948,000	Buffalo Oil & Resources	1,866	1,176
800,000	Pearl Exploration & Prod.	3,600	3,152
850,000	Rockyview Energy Inc.	4,076	1,938
750,000	Saxon Energy Services , comm.	3,419	3,750
3,500,000	Stratic Energy Corp., common	4,352	3,185
	TOTAL	**24,443**	**17,321**
REAL ESTATE -- 2.22%			
500,000	Lanesborough Real Estate Trst	3,015	2,925
	TOTAL	**3,015**	**2,925**
MINERALS / PRECIOUS METALS -- 9.47%			
1,500,000	Amerigo Resources Ltd.	3,669	3,855
2,250,000	Constellation Copper Corp.	3,879	1,463
1,783,500	Liberty Mines Inc., units	1,605	4,905
1,500,000	Scorpio Mining Corp.	1,725	2,250
	TOTAL	**10,879**	**12,472**
INDUSTRIAL PRODUCTS -- 6.31%			
500,000	Migao Corp., common	1,425	4,175
375,000	Migao Corp., warrants	0	1,781
600,000	Terravest Income Fund units	4,337	2,364
	TOTAL	**5,762**	**8,320**
PAPER/FOREST PRODUCTS -- 5.71%			
450,000	Fortress Paper	3,574	3,519
500,000	Norbord Inc., common	4,369	4,000
	TOTAL	**7,943**	**7,519**
MERCHANDISING -- 1.84%			
1,765,000	CY Oriental Holdings	2,153	2,365
799,998	CY Oriental Holdings , warrants	0	56
	TOTAL	**2,153**	**2,421**
CONSUMER PRODUCTS -- 1.00%			
3,025,000	Orbus Pharma Inc.	1,510	1,240
1,500,000	Orbus Pharma Inc., warrants	0	83
	TOTAL	**1,510**	**1,323**

No. Of Shares	Description	Total Cost ($)	Market Value ($)
U.S. STOCKS -- 29.75%			
MERCHANDISING -- 0.99%			
325,000	Cost Plus Inc., common	3,329	1,298
	TOTAL	**3,329**	**1,298**
TRANSPORTATION -- 7.13%			
150,000	Babcock & Brown Air Ltd. ADS	3,450	3,398
82,944	Ocean Freight Inc., common	1,575	1,915
125,000	Seaspan Corp., common	3,036	4,087
	TOTAL	**8,061**	**9,401**
TECHNOLOGY -- 2.59%			
250,000	Keynote Sysytems Inc.	3,156	3,411
	TOTAL	**3,156**	**3,411**
COMMUNICATION -- 1.24%			
625,000	Regent Communications	3,017	1,633
	TOTAL	**3,017**	**1,633**
OIL & GAS -- 1.40%			
750,000	Meridian Resource Corp.	3,256	1,848
	TOTAL	**3,256**	**1,848**
AUTOMOTIVE -- 2.45%			
150,000	Superior Industries Inc.	3,048	3,233
	TOTAL	**3,048**	**3,233**
MINERALS / PRECIOUS METALS -- 11.29%			
2,500,000	Phoenix Coal Corp. conv. Pref.	3,288	3,105
12,012,500	US Silver Corporation units	3,741	11,772
	TOTAL	**7,028**	**14,878**
FINANCIAL SERVICES -- 2.65%			
62,500	Kansas City Life Insurance Co.	3,570	2,738
340,700	W Holding Company Inc.commo	1,871	758
	TOTAL	**5,441**	**3,496**
FOREIGN STOCKS -- 21.11%			
1,610,420	Challenger Wine Trust	1,044	1,090
1,412,000	Fortune Real Estate Inv. Trust	1,254	1,057
3,220,000	Fountain Set Holdings Ltd.	1,412	1,170
4,855,000	FuYu Corp. Ltd., common	1,619	877
4,042,500	Harmony Asset Ltd.	2,830	3,355
1,750,000	McGuigan Simeon Wines Ltd.	3,453	2,601
300,000	Natuzzi SpA	2,374	1,759
25,000,000	Playmates Holdings Ltd.	3,533	2,814
650,000	Standard Life PLC	3,167	3,800
5,000,000	Thakral Holdings Group.	3,079	4,705
1,000,000	Western Areas NL units	3,000	4,400
250,000	Western Areas NL units, warr.	0	188
	TOTAL	**26,764**	**27,816**
TOTAL COMMON STOCK		**118,802**	**119,314**
TOTAL PORTFOLIO		**131,249**	**131,761**

ABC FUNDS

Research, Patience and Potential Reward

The secret of business is to know something that nobody else knows.

Aristotle Onassis (1906-1975)
Greek Shipping Magnate

As a fundamental analyst I have always believed in the process of serious hardcore equity research, investment patience, and significant potential rewards. This task has often entailed a deep and tedious analysis so as to uncover an overlooked market gem or diamond in the rough. Often the discovery of a valuable tidbit of company information that the market has disregarded can frequently be serendipitous. In other cases it can be a simple question of investment curiosity and/or good luck. Let me explain.

When we initially started to review Fortress Paper Ltd., one of our two ABC Funds Value Favourites highlighted on page 3 of this ABC Perspective, we weren't terribly excited. True, the Company appeared interesting in that it was a Canadian-owned international producer of security papers and wallpaper in Switzerland and Germany. However, as net asset value buyers, we could not find a justification for purchasing this small capitalization initial public offering. While we were about to move on to analyze another company, we decided to take a second look at Fortress Paper.

At that time, after poring through the initial public offering prospectus we discovered that the fire insurance value of the properties, inventory, the replacement value of three 12,000 tonne production machinery, its Dresden, Germany's land, hydroelectric plant and water treatment facility were significantly above the company's market capitalization and share price. Putting pencil to paper we reckoned that the company was trading at a 75% discount to our estimated net asset or replacement value. We believed that this discount was excessive for assets that were both cash flow positive and profitable. As a result, we decided to purchase just under 10% of Fortress Paper for our ABC Funds.

Now, while the purchase of this lightly-traded, TSE-listed common stock was not without risk, we believed that the serendipitous discovery of its significantly undervalued assets made the risk/reward of this investment quite appealing. But, more importantly, our deep-digging and discovery of Fortress Paper's undervalued assets, not commonly known by the marketplace, added an exciting upside potential to an unglamourous European production story.

As highlighted in our ABC Perspective front page, "Testing Our Mettle", we are often willing to be early investors in an excellent longer term investment despite the possibility of negative short-term performance. In summary, by combining serious investigative research and considerable investment patience, we believe that the longer term potential rewards of a Fortress Paper far outweigh its shorter term market fluctuations.

Irwin A. Michael, CFA

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